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country's future as European and not merely national state. These attitudes personified in Adenauer, in whom public has great confidence and whom it will presumably continue support as long as his health endures and fundamentals present international situation remain largely unchanged.

One great asset to Govt is knowledge it has just won major election using slogan "no experiments," but at same time it must be careful not to give impression its policies being overtaken by events. In other words, if opinion in West supported by German opposition parties, intellectuals and independent press, widely presses for negotiations, Fed Govt cannot risk giving appearance inactivity.

For foreseeable future we anticipate Fed Govt will try compromise by demonstrating willingness to talk to Russians while continuing present policies. Nature of compromise will be determined primarily by outside forces, in particular US leadership and Soviet tactics. Any West German talks with Russians would presumably take place through normal diplomatic channels and be loyally reported to NAC. We do not believe Fed Govt presently contemplating bilateral negotiations with Soviets on questions, including reunification, of international importance.

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HEADQUARTERS

INTRODUCTION

Following is Embassy assessment German scene at beginning 1958. Federal Republic remains one of most steadfast American allies. Yet there are many signs this may be year of change. Degree and kind cannot be defined in introduction, but to extent possible we try to indicate in individual sections of report what elements of change may be. (This report should be read in conjunction with Embtel 2383, February 3.)

General Climate. While majority of German voters cast their ballots only five months ago for Government parties which campaigned on platform of "no experiments," New Year found restless stirrings, particularly among intellectual circles for new approach to overcome present East-West stalemate. While reunification remains ultimate German goal, intensity of interest in this as an isolated problem (degree of which has

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always been problematical), has given way to view that more immediate problem is international agreement which will reduce dangers of war.

One problem facing Govt is apparent anomaly in German undertaking to raise sizeable army equipped only to fight limited war in area where it usually assumed hostilities will mean general war. In this connection, advances in missile development during 1957 and discussion of stationing IRBMs in Europe raised new problems for Germans. This occurs at time when mounting costs of defense outlays beginning to pose real political difficulty. Govt now faced with prospect for first time of deficit financing to meet coming increases in defense costs. Amongst public, patience appears to be starting to wear thin with continuation of arms race which has thus far failed win concessions from Soviets; on contrary, Sputnik success was dramatic demonstration Soviets far from falling behind in contest.

In this atmosphere, Kennan lectures found receptive audience among certain German groups, which seem increasingly hungry for any sign of hope present deadlock can be overcome and that some relief from threat of war and growing defense burden is possible. However, pressure for negotiations with USSR still within manageable bounds; mass opinion not yet focused on this problem, and to date Govt not confronted with tide of popular unrest. But beginnings of potentially difficult situation are at hand. When usually politically neutral and highly respected Federal President

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Hunss injects himself into discussion of current political controversy, as he did in New Year's message, symptoms of malaise are unmistakable, and Soviets have increased opportunity to influence and exploit this climate to suit their own purposes.

Another difficulty is that German public now appears feel less urgency about need for defense effort and gives little indication of willingness make sacrifices which will be required in next few years if present build-up schedule to be maintained. Immediate threat of war as sensed at time of Hungary and Suez has receded, and danger of direct Soviet aggression not now considered great. Despite positive achievements, December NATO conference failed impart any great sense of urgency or induce German public to devote greater efforts to defense. On contrary, most positive aspect of conference in segment German press was indication willingness hold For Min meeting with USSR. Chancellor's statement at NATO meeting he would not object to exploration Soviet intentions, though in fact restrained and probably not designed as political initiative, was sensationalized by press and clearly in tune with current mood of country.

General sentiment prevails that something needs to be done, although ideas of exactly what could be achieved through negotiations are vague, and hopes for reaching major settlement are small. Impression given temporarily Adenauer changing course modified by his subsequent

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statements, and there is no doubt his basic assessment of Soviets remained unchanged. He can continue to count on support of German population which is pro-Western and anti-Communist, but cannot completely disregard amorphous public hope for improved prospects of peace.

If pressure remains strong in West for increased diplomatic activity, Fed Govt cannot afford remain inactive and can be expected to inject reunification issue in any major negotiations. Fact that two-thirds of eligible Germans have opportunity vote in 1958 state election in which national questions usually play large role, will maintain pressure on Chancellor to consider public opinion. If Adenauer should die, any successor would be even more subject to pressure of public opinion.

Disarmament. Several levels of opinion operative in disarmament area. First is public opinion, which though it carries less weight than in US and UK and can be led more easily, is factor to be reckoned. During year German public appeared upgrade importance attached to disarmament, and SPD even advocated bilateral US-Soviet negotiations on subject. Undoubtedly large majority Germans would prefer to see some disarmament agreement reached even if this meant no immediate advance toward reunification.

Nevertheless, desire for disarmament is not all-embracing or unqualified. For example, there is healthy amount of scepticism about prospects of agreement especially in Govt. While Chancellor would welcome

settlement which left West in relatively stronger position than Communist Bloc, he appears concerned lest any agreement lull West into false sense of security and make it prey to eventual Soviet expansion. Secondary to this in importance may be Chancellor's expectation that disarmament agreement would distract world attention from Germany and decrease leverage for reunification. Finally, he probably reluctant to have negotiations on this subject advance too far at present time when German still has nothing to bargain in negotiations and therefore would have voice in settlement only at sufferance of others, especially US. It will be recalled Chancellor walked tightrope during London disarmament negotiations by trying to appear to German public to favor disarmament while behind scenes actually taking very hard line.

Nuclear Weapons. Question of whether Fed Rep will have nuclear weapons will probably move rapidly toward resolution this year. Despite major effort by well organized opposition parties which made primary campaign issue of horrendous subject of nuclear weapons, they were unable to cost Govt significant number of votes. Govt was forced to handle issue delicately by saying question nuclear weapons for German army not yet acute, but left no doubt it was leaving door open for such ~~tactical nuclear weapons as far public opinion~~ step. Embassy believes Govt can afford equip Bundeswehr with tactical nuclear weapons as far public opinion concerned if NATO

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rather than on German nationalism. But we are concerned over possibility some of his subordinates carrying into effect policies, implications of which he may not comprehend.

If Fed Rep achieves atomic independence, whole pattern of international power will be changed. Sections on relations with USSR and France treat this further.

Relations with United States. Present relations between German Govt and US give somewhat deceptive appearance. On surface they remained excellent during past year. Both coalition and opposition parties followed unique practice of exploiting friendship with US as weapon in election campaign. There unquestionably remains large reservoir of good will toward, and faith in US among German public but there is now less unquestioning acceptance of US policies. Chancellor made no secret in private conversations during of 1957 what he considered failure Americans to assert aggressive leadership. NATO meeting apparently helped repair this, and his past outbursts appeared represent temporary irritations rather than any fundamental disaffection and are in fact reflection of his dependence on US. He remains foremost among German leaders who recognize Fed Rep remains dependent on US for its security both in form general deterrent US offers to Soviet aggression and more tangibly in form substantial American troops in Fed Rep, which guarantee US involvement in event Soviet attack.

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Germans have raised only 130,000 troops thus far, and consequently bulk their defense still rests with NATO troops, i.e. as they see it, American troops. However, degree of German dependency on US beginning to decrease slightly. Sovereignty, respectability and prosperity have been achieved, and economic aid and free military assistance now practically at end. By end 1956 Germans will have about 200,000 men in uniform. With further increase in German armed forces, decrease in dependence on US will continue, even though change will be one of degree and not kind.

For coming year, at least, major reduction in US forces in Germany or possibility thereof would cause Govt major concern. But beyond that period, with gradual build-up of German army, and particularly as missiles become operational, presence of large number American troops on German soil will assume less significance, and belief will probably grow it should prove possible negotiate with USSR on reduction US troops in Germany with less danger to German security. Even staunchest CDU supporters of hard line tend believe weaponry developments in coming two years will permit West increased flexibility in negotiations and there would no longer be consternation about possibility some eventual US reduction.

German attitudes toward US will be conditioned largely by success of US in meeting international problems. For example Germans more dismayed by US reaction to Sputnik than impressed by Russian ability to launch it.

Political leaders here were troubled over reported hysteria in

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US as result Soviet success. Subsequent struggle in US to attach blame for state of affairs and criticism of administration raised some doubts about American leadership. In this connection, Germans particularly critical of interservice rivalries. News US responding to Soviet challenged by increasing own defense expenditures reassuring to Govt, but there is increasing tendency outside to maintain armament efforts alone not enough and greater diplomatic efforts also required.

NATO. Strong effective NATO remains important to Fed Rep because (A) it is basis on which US troops kept here and committed to German defense, and (B) it is framework within which Fed Govt can influence Western policies. NATO is also means by which Fed Rep can become first-rate military power with access to most modern and powerful equipment. For variety of reasons--including internal political pressure, genuine concern about course East-West developments, and gravity problems facing Western alliance--Govt has given strong accent to development NATO in political field. Greater NATO political consultation is means for increasing Western solidarity; it is also means for magnifying German voice in Western councils. Govt likely continue press for greater NATO consultation, but it can also be expected to use any other diplomatic means available to it to further own interests.

1957 was significant in terms German defense program. Procrastination on build-up ceased after September election and Govt submitted

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to NATO defense program for three year period which confirmed 12 division contribution and projected following sharply rising defense expenditures: 1958-59, DM 13 billion; 1958-60, DM 15.9 billion; 1960-61, DM 19.9 billion. However, still required are major modifications to these plans to incorporate latest NATO planning (Norstad Plan) for force requirements through 1963 involving assumed availability of nuclear-rocket weapon systems. Also critical question arising whether Fed Rep has budgetary capability for meeting planned defense expenditures without recourse to financial measures considered politically unacceptable. If schedule adhered to, as these burdens increasingly felt by taxpayers there will likely be intensification of interest in easier alternatives such as limited disarmament.

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German-British Relations. With establishment EURATOM and Common Market and closer military cooperation, 1958 will see strengthening of Fed Rep's emphasis on its continental partnership in contrast to relationship with England. Respect for Britain which has long occupied favored position as U.S. ally, giving way to misgivings about nation considered in decline and one whose motives often suspect in matters concerning European integration. Germans immediately interpreted so-called Grand Design as not too subtle British move to sabotage closer integration of the Six, which is one of Adenauer's most cherished projects. Fed Rep has assumed a leading position among Six and will presumably react similarly coolly to any British move which might impede progress in this field. Moreover, Chancellor appears have no natural affinity for or comprehension of British.

British forces are increasingly source of friction particularly in troublesome issue of support costs, but British threat to withdraw evokes mixed reaction. It disturbs Government because of strategic and political implications involved, but many Germans would not be unhappy see British leave.

Commercial rivalry and extraordinary German prosperity have embittered British

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For next year at least Fed Rep and French likely continue work closely together, further solidify ties among the Six, and place correspondingly less emphasis on association with UK or with the Seven in WEU. Inevitable concomitant, however, is German involvement in French financial and to some extent French colonial difficulties where Fed Govt might be helpful despite critical German public attitude toward French in these problems. Economic reintegration of Saar may cause some friction, but given present excellent state German-French relations should pose no insurmountable difficulty.

European Integration. Major achievement during year was conclusion of agreements on Common Market and EURATOM which enjoyed bipartisan support in Fed Rep. This marked milestone toward European integration, which finds broad public support in Fed Rep, where it is seen as positive and constructive approach to cure of many European ills. Appointment Hallstein as President Common Market flattered Germans and boosted their enthusiasm for system in which they feel destined enjoy leading role. However, with signature of treaties most dramatic point of impact has probably passed. Next year will be devoted to solving problems connected with establishing institutions and administration, and long drawn-out process required before tangible benefits become apparent.

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Moreover, implementation of treaties will create problems of adjustment and call for some sacrifices such as contribution of $200 million for underdeveloped areas. This would be subject to increased criticism if economy declines and if situation in Africa deteriorates further. Vice Chancellor Erhard, among others, has always been lukewarm toward Common Market in present form but can be expected to support it at least as long Adenauer remains Chancellor. EURATOM may offer more tangible and earlier results, and Fed Rep will undoubtedly cooperate extensively in basic research, especially with French.

While widespread speculation on adjustment of major European currencies largely abated during last quarter of 1957, outstanding strength of DM and German payments position fundamentally unchanged. Mounting EPU surpluses in 1957 caused Germans embarrassment, and tendency for Germans to point finger at France and other debtors for improper financial policies and overvalued currencies. Germany now troubled by having to assume major European responsibility for financing aid program for France. In German view, responsibility such as this is greater than German economic capability, especially when viewed in light scarcity of capital in Germany, current and growing fiscal deficits, burden of restitution payments, and armament imports.

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Relations with USSR. Basic relationship between Fed Rep and USSR has not changed; Soviet Union remains major obstacle to reunification and continues give clear indication it intractable in this question. There has, however, been subtle change in tone of relationships between two Governments during past year. New Soviet Ambassador Smirnov proved much more successful than predecessor Zorin in establishing contact with Fed Govt and politicians, and initially ill-starred repatriation negotiations met smoother going at year's end. Certainly Chancellor has not changed his views on Soviet Union one iota, but Fed Govt relations with USSR are for moment much less harsh and more correct than heretofore.

Degree of firmness which Adenauer shows publicly will depend greatly on Soviet tactics. Fear of consequences in satellites of reunification and fear of a strong united Germany will probably continue make Soviets unwilling to reunite Germany under existing circumstances. In present state prosperity and political stability in Fed Rep and in absence disturbances in East Zone suppressed by overwhelming Soviet force, pressure to change status quo is not great enough among Germans to cause serious trouble.

However, acquisition of nuclear weapons by Fed Rep might give this question different dimension, at least in Soviet

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eyes, since manifold increase in striking power of historic enemy with irridentist demands on USSR would most likely be interpreted as serious threat to their position. Accordingly, USSR probably will continue efforts, as with Rapacki plan, to block such development. As they earlier tried to prevent German rearmament, Soviets are now trying to prevent Bundeswehr from achieving maximum effectiveness. As long as Soviets follow present adamant line Fed Govt will not be forced to make difficult decisions or to revise present policies radically. However, if Soviets depart from position of blunt rejection reunification and appear to show genuine interest in disarmament, Fed Govt may well feel compelled to appear more flexible and conciliatory. For example, if apparently concrete offer of reunification under free elections were made on basis of withdrawal all foreign forces, non-membership in NATO and arms limitations more stringent than in WEU, Fed Govt would be confronted with very difficult decision. There would then be much greater audience for those like SPD who now maintain US would be just as likely to defend Germany in own self-interest if Soviets attack, as under NATO. These groups would then argue that removal of threat to peace by ending division of Germany would outweigh risks. There are undoubtedly other ways open to Soviets, but we expect their interest in status quo will severely restrict their freedom

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of maneuver. Given strong anti-Communist and pro-Western sentiments of Germans there seems no basis for deal with Soviets and any appearance of softness in Fed Govt seems likely to be tactical and intended to counter accusations of inactivity in eastern policy or of being out of step with current world developments.

Relations with Eastern States. They are complicated by Yugoslavian recognition of GDR. Against substantial opposition, Govt broke relations with Yugoslavia and believes this prevented recognition of GDR by other states. This step has postponed desired normalization relations with Poland, but Govt now again contemplating gradual moves in this regard.

Germans supported US on China trade differential but steered cautious course between Red China and Nationalist China, refusing to recognize either. Contacts between East and West German population by years end with stricter East zone travel controls restricting earlier heavy interzonal travel. New All-German Affairs Minister Lemmer proceeding energetically to make this ministry more active but, given current policies of GDR regime, it seems unlikely he can accomplish anything substantial to improve relations between two parts Germany.

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Berlin. Berlin's isolated position again demonstrated toward year's end when traffic cut off during GDR currency conversion

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and when stricter East German controls were imposed on inter-sector travel and travel between Soviet Zone and Berlin. It became apparent, however, that controls were directed against East Germans more than Berlin, and at turn of year indications were that German travel between city and West would continue normally.

Situation Allied travel to Berlin and in and through Soviet zone somewhat gloomier. At year end Soviets abruptly tried introduce new procedures in connection "recognized" travel, and their transfer to GDR of visa-issuing authority for "privileged" travel probably means such travel no longer possible for officials of Three Powers. Most potentially serious threat, however, was GDR claim to "air sovereignty" and indications are that 1958 will bring increased difficulties in this respect as well as in connection "recognized" surface travel.

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Chancellor in near future still seem slim but for long-term he is distinct possibility.

Counterbalancing such influences is sober and wise counsel of men like Globke and Krone who keep long-range policy more in mind, particularly alliance with US. Brentano does not have voice in foreign policy decisions commensurate with his office; nevertheless he generally does creditable job. Constant undercutting by Blankenhorn, von Eckardt, and even Chancellor has greatly weakened Brentano's authority.

Departure of State Secretary Hallstein takes one loyal and respected advisor of Chancellor from ranks of those in Foreign Office who advocate hard policy toward USSR and whose basic sympathies toward US unmistakable. His successor, Scherpenberg, while fundamentally pro-West, is much less experienced than Hallstein in political questions and may be somewhat naive about Soviet Union.

Main change in question Chancellor's successor during 1957 was clear emergence of Erhard as second in line. His popularity as campaigner buttressed by extensive industry-paid press campaign featuring his free-market philosophy which built him up in public eye. It is interesting to note he has no strong or cohesive political following, and his party strength lies primarily

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primarily in his ability as vote-getter and credit given him for prosperity.

New Finance Minister Etzel is still unknown quantity, but if he successfully copes with problems of defense costs and tax reform in period when economic leveling-off expected, he will gain in stature. His strong support of Chancellor's foreign policy in well known, and he is convinced "European."

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Domestic. Political stability assured by 1957 elections bringing CDU Govt back to power with unprecedented majority. Govt in favorable position with present type democratic institutions popular largely as result economic recovery and restoration international respectability. All radical forces in body politic reduced to insignificance, and Govt should continue enjoy popular support barring major setbacks in economy or foreign policy.

Endorsement of Govt policies in 1957 election does not mean any lessening of political activity. In 1958 there will be elections in nearly half of five states which control Bundesrat votes: North Rhine-Westphalia, Hesse, Schleswig-Holstein, Bavaria and Berlin, involving over 23 million qualified voters or two-thirds of electorate. Both national and international policies will continue play large part in elections, and results will be interpreted by victorious parties as indication of support for national policies. Chancellor recognizes this and plans take active part in campaign.

(CDU) Adenauer remains in firm control of CDU, and electoral considerations this year will discourage dissension in party ranks. CDU remains loose agglomerate of disparate elements but eight years of governing have developed art of compromise within party.

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Adenauer is, however, in his 83rd year, and question naturally arises how long he can continue give forceful leadership necessary. While party remains fully responsive to his will on basic questions, there are strong and independent CDU Deputies, and Bundestag faction will not be mere rubber stamp.

Should Chancellor die, party would probably not split, but there would certainly be confusion and dispersion of power. Men like Gerstenmaier and Kiesinger would achieve greater prominence in foreign policy formulation as would Foreign Office bureaucracy. Only likely contender for power is SPD which still trying to pull itself together after last election defeat. To date, reform movement in party confined to optical and organizational changes, and there seems little prospect under present circumstances of more constructive opposition role or of strength of leadership or clarity of policy to expand significantly beyond traditional class support.

FDP is still able to make nuisance of itself but at present is without power and, like DP, depends for survival primarily on making inroads into present CDU supporters. Trend seems in opposite direction, toward continued domination German politics by CDU and SPD.

(Issues) Popular support for policy of "no experiments" which was so successful in last election could be weakened by loss of

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confidence in either political or economic security, and Government will in 1958 be mainly concerned with prices, taxes, and defense costs. On latter score, prosperity is not expected to increase at past rate but is at unprecedented high in Fed Rep and leveling off would not have major political effect although it may sharpen industrial conflict.

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Conclusions. Adenauer has capability to hold to his main policy line as long as effective US leadership, Soviet intransigence and Western solidarity are demonstrable. If any of those three main bases of West German policy appear to alter substantially, Chancellor will probably feel compelled make corresponding adjustments his own position. Extent these adjustments will be affected by magnitude of public fear nuclear war and concern about costs and ultimate outcome of cold war. When and how much Adenauer has to do would depend much on Soviet cleverness. In past Soviets unwillingness concede reunification has been major asset for West, and if Sovs continue demonstrate this unwillingness openly, this will automatically limit degree to which Fed Rep under pressure to seek settlement. Conversely if Soviets should unexpectedly prove able to handle reunification question more adroitly, severe strains could be put on Fed Rep's relations with West. Factor of similar importance is Fed Rep's confidence in US, which could be shaken by such adverse developments as important economic difficulties, worsening of President's health, further impression of uncertainty or confusion in US like that resulting from Sputnik, or additional rifts in Atlantic Alliance. Finally, if, on balance, Communists seem to gain advantage over West in world struggle, German

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